

## Message Text

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51

ACTION ARA-20

INFO OCT-01 AF-10 EUR-25 EA-11 NEA-10 ISO-00 CIAE-00

DODE-00 PM-07 H-03 INR-10 L-03 NSAE-00 NSC-10 PA-04

RSC-01 PRS-01 SPC-03 SS-20 USIA-15 SAM-01 AID-20

COME-00 EB-11 FRB-02 TRSE-00 XMB-07 OPIC-12 CIEP-02

LAB-06 SIL-01 OMB-01 CEA-02 STR-08 INT-08 SCI-06

FEA-02 DRC-01 IO-14 /258 W

----- 106412

R 201500Z FEB 74

FM AMEMBASSY CARACAS

TO SECSTATE WASHDC 2782

INFO AMEMBASSY BEIRUT

AMCONSUL DHAHRAN

AMEMBASSY JAKARTA

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LAGOS

AMEMBASSY LIMA

AMEMBASSY LONDON

AMEMBASSY PORT OF SPAIN

AMEMBASSY QUITO

AMEMBASSY TEHRAN

AMEMBASSY TRIPOLI

AMEMBASSY VIENNA

OECD PARIS 310

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EO 11652: NA

TAGS: ENRG VE

SUBJECT: INCREASING PRESSURE FOR NATIONALIZATION

1. NATIONALIZATION OF PETROLEUM INDUSTRY WILL BE FIRST ORDER OF

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BUSINESS WHEN VENEZUELAN CONGRESS CONVENES ON MARCH 2. THIS IS  
OPINION EXPRESSED BY HIGH OFFICIAL OF MINISTRY OF MINES AND

HYDROCARBONS (MICHELENA) IN CONVERSATION WITH PETROLEUM ATTACHE FEBRUARY 19. MICHELENA EXPECTS IMMEDIATE NATIONALIZATION TO BE PUSHED BY COPEI, AN OPINION THAT APPEARS TO BE BORNE OUT BY PUBLIC COMMENTS MADE BY COPEI SPOKESMEN IN RECENT WEEKS AND BY ANNOUNCEMENT YESTERDAY BY PARTY'S SECRETARY GENERAL AGUILAR THAT COPEI HAS COMPLETED WORK ON AN OIL NATIONALIZATION BILL TO BE PRESENTED TO NEXT CONGRESS. AGUILAR STATED THAT COPEI'S BILL PROVIDES FOR PAYMENT OF COMPENSATION TO COMPANIES ON BASIS OF BOOK VALUE.

2. MICHELENA SAID HE HAS IMPRESSION OIL COMPANIES ARE RESIGNED TO NATIONALIZATION IF NOT ACTUALLY PROMOTING IT. SHELL, HE SAID, IS PROMOTING A SCHEME FOR A "FEDERATION OF NATIONAL OIL COMPANIES." THIS WOULD INVOLVE VENEZUELAN GOVERNMENT TAKING OVER COMPANIES AND LEAVING THEM IN OPERATION JUST AS THEY ARE WITH ALL CURRENT FACILITIES AND PERSONNEL. EACH WOULD PRESUMABLY HAVE A NEW NAME REFLECTING ITS STATUS AS A NATIONALLY-OWNED COMPANY, AND ALL WOULD BE LINKED IN A FEDERATION. THIS WOULD AVOID PROBLEMS OF "GIANTISM" AND MONOPOLY THAT WOULD BE INHERENT IN A SINGLE HUGE NATIONAL OIL COMPANY. COMPANIES WOULD RECEIVE LONG-TERM CONTRACTS TO PURCHASE MOST OIL PRODUCED FROM THEIR FORMER PROPERTIES, AND WOULD BE COMPESATED FOR THEIR ASSETS AT BOOK VALUE, ACCORDING TO SHELL'S PROPOSAL.

3. SHELL PROPOSAL WOULD ALSO PROVIDE FOR A VENEZUELAN GOVERNMENT OBLIGATION TO UNDERTAKE AND PAY FOR LARGE INVESTMENTS THAT WILL BE REQUIRED IN FUTURE YEARS TO MAINTAIN OIL PRODUCTION. MICHELENA ESTIMATES THAT AN AMOUNT IN THE NEIGHBORHOOD OF \$2 BILLION SHOULD BE SPENT DURING THE NEXT TWO YEARS ON SECONDARY AND TERTIARY RECOVERY METHODS AND ON EXPLORATORY DRILLING IN ORDER TO MAINTAIN PRODUCTION OF CURRENT CONCESSION AREAS AT THE PRESENT LEVEL. CURRENT SPENDING BY OIL COMPANIES IS NOWHERE NEAR THIS LEVEL (ABOUT \$300 MILLION), AND NECESSARY LARGER AMOUNTS ARE NOT LIKELY TO BE FORTHCOMING UNTIL QUESTION OF NATIONALIZATION IS CLEARED UP ONE WAY OR ANOTHER.

4. MICHELENA BELIEVES THAT QUESTION OF NATIONALIZATION SHOULD BE STUDIED IN DEPTH OVER A PERIOD OF TWO TO THREE YEARS. IF IT WERE, HE BELIEVES THAT ULTIMATE DECISION WOULD BE MUCH MORE CONSERVATIVE  
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AND IN DIRECTION OF SOMETHING LIKE SERVICE CONTRACTS OR MODIFICATIONS OF PRESENT ARRANGEMENTS. HE BELIEVES THAT AS PRACTICAL MATTER VENEZUELA HAS SUFFICIENT CONTROL OVER ALL ASPECTS OF OIL INDUSTRY AT THIS TIME AND THAT NO NEW ARRANGEMENT IS LIKELY TO BE MORE PROFITABLE FOR VENEZUELAN TREASURY. THUS, NATIONALIZATION MOVEMENT IS FED MAINLY BY EMOTIONAL DESIRE TO DEMONSTRATE OWNERSHIP AND CONTROL OF RESOURCES RATHER THAN BY PRACTICAL CONSIDERATIONS.

5. COMMENT: EMBASSY AGREES THAT COPEI WILL PUSH NATIONALIZATION AS SOON AS CONGRESS CONVENES, BUT IT DOUBTS THAT AD WILL WISH TO

PERMIT ANY DEFINITIVE ACTION PRIOR TO ITS ASSUMPTION OF OFFICE,  
AFTER WHICH IT WILL WISH TO STUDY MATTER, COLLECT OPINIONS, AND  
COME FORTH WITH ITS OWN SCHEME. HOWEVER, PACE OF NATIONALIZATION  
IN VENEZUELA IS LIKELY TO BE MUCH INFLUENCED BY EVENTS IN OTHER  
OIL PRODUCING COUNTRIES, AND ANY DRAMATIC EVENTS ELSEWHERE COULD  
HAVE AN EFFECT.  
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## Message Attributes

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